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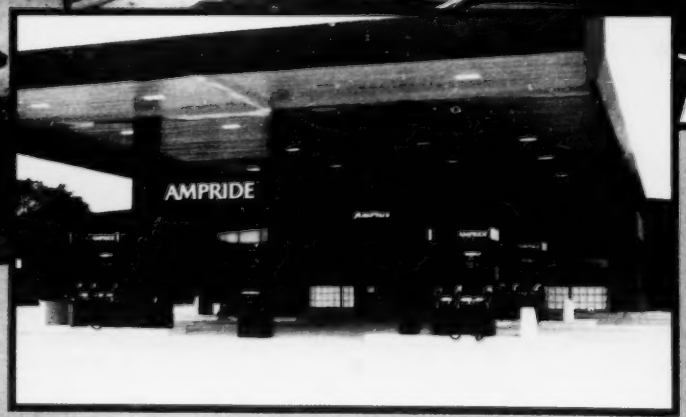

Farmland Industries: How Giant Co-op Revamped To Seiz Rural Retail Market

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Editor's Viewpoint

The oil shocks of the 70s so traumatized us that most people think of an "energy crisis" only in terms of shortages and rocketing crude prices. But, as one industry authority points out, there is another danger which may be even greater, if for no other reason than that it's more likely: an OPEC collapse that undermines the world oil price system, damages the economy in general and creates chaos in the oil industry from refiners down to marketers.

New York economist John H. Lichtblau told the House Banking and Finance Committee not long ago that although a cutoff of Persian Gulf exports is possible between now and 1991, the risk of an OPEC collapse in this period "is far greater than that of a major supply disruption" and cautioned that "we should treat the possibility of a price collapse as seriously as that of a foreign oil disruption, probably more so."

Lichtblau, who has been president of Petroleum Industry Research Foundation, Inc., for almost 30 years, noted that a free fall in crude prices could take us to $10 bbl. or less for several years, a drop that could cause a financial crisis in OPEC countries as well as major non-OPEC exporters.

More important is that "the relatively high cost U.S. and Canadian oil and gas producing industry could not survive very long in a $10 price environment," and "a severe recession in the U.S. oil and gas producing states might become a national problem." To get a feel for what this could mean, look no further than the "oil patch" which hasn't recovered from the last dive in crude prices.

Why does Lichtblau consider this more likely than a supply disruption? For one thing, none of the factors that triggered the disruptions of 1973 and 1978 apply today. "Surplus capacity," he notes, "is super-abundant, and while the bulk of it is located in the Persian Gulf, some 3-3.5-million b/d (13-15% of total world exports in 1987) are located outside the Persian Gulf." Also, the U.S. Strategic Petroleum Reserve can be drawn down at a rate of 3.5-million b/d for at least four months and at declining rates thereafter and European countries hold about 400-million bbl. in public stocks for emergency purposes. Current commercial inventories are significantly higher than a year ago. Finally, he points out, "the myth of OPEC's irreversible price structure has been shattered for a long time to come by the events of 1986 which have been reinforced by the current price situation."

In short, we may be relatively secure from a unified OPEC, sudden shortages and oil price increases, which cause most concern, but we should be equally alert and prepared for the exact opposite possibility. *—Frank M. Victoria*

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Farmland Industries is branching out from its traditional farm customer base with a bold strategy to capture more rural nonfarm retail business. Keys are a major re-imaging program, advance pump island electronics and a customized retail modular system for co-op marketers. **Page 46**

Survival in the energy business means diversity, says Barney U. Brown Jr. of highly diversified Red Rock Petroleum Co., a company involved in banking, real estate and ranching, as well as gasoline and C-stores. **Page 58**

Over the years, Cumberland Farms has prized its identity as one of the biggies in the C-store market. But now that it has also become the country's largest independent gasoline retailer, the Census Bureau may reclassify Cumberland as a service station chain that also sells groceries. **Page 66**

• CATCHING UP

Concern that refining and production couldn't pay for itself downstream was a major factor in selling virtually all of Atlantic Refining & Marketing Corp. to Sun Co., says John Deuss, Atlantic chairman and CEO. Speaking at the Petroleum Marketers Assn. of America's Sixth National Oil Heat Marketing and Promotional Conference recently, Deuss said "there isn't enough margin to live with" downstream. He sees crude prices continuing to fall ($10 to $12 a bbl. by year end) and marketing competition increasing—especially from foreign investors. OPEC "hasn't been very successful" with production quotas and prospects of easing Saudi-Iranian relations are "poor," Deuss said. He also expects non-OPEC sources to increase their share of world oil production while OPEC's share, now 18%, will increase 2-4%. The resulting increase in competition among producers will make downstream operations more attractive, Deuss predicted. He cited the agreement between Texaco and Saudi Arabia as an example and said he expects an increase in foreign investment in U.S. marketing.

Southland Corp. continues to restructure. The company recently sold its Snack Food Division to Vesper Corp., a privately held, Massachusetts company, for an undisclosed amount. The Snack Food Division includes three companies: Keystone Pretzels Bakery, in Lititz, Penn., EL GE Potato Chip Co., York, Penn., and Pate Foods, South Beloit, Ill. Meanwhile, Kwik Shops Inc., a subsidiary of Dillon Co. Inc., signed an agreement to buy 46 7-Elevens in several Midwest states for an unknown price. The sale, which does not include 182 7-Elevens in Illinois not scheduled for divestiture, will give Kwik Shops a total of 209 C-stores. With this transaction, Southland will have sold 876 of the 1,000 stores earmarked as part of its leverage buyout. Southland also completed the purchase of 43 National Convenience Stores in Las Vegas for $23.3-million. The stores are to be converted to 7-Elevens this month.

The octane race continues in the Midwest. Most recently, Shell Oil Co. joined the bandwagon, unveiling 93-octane SU 2000 in Chicago, Detroit, Indianapolis and St. Louis. At the same time, Shell dropped leaded regular, replacing it with 89-octane unleaded SR 2000 in many metro markets east of the Rockies in September.

Amoco jobber Bob Herr of Herr Oil in Galesburg, Ill., filed a lawsuit against Amoco Oil to prevent the oil company from terminating him for allegedly commingling. Jobbers in Wisconsin and Indiana are also considering suits against the major for the same reason. The Herr suit claims that because Amoco prohibited the blending of its gasoline with alcohol, the jobber went to another supplier for ethanol. Amoco found the other ethanol-blended gasoline in an audit and served Herr a termination notice on June 16, effective Sept. 8. Herr's suit claims that this was less than the 90 days notice required under the Petroleum Marketing Practices Act and didn't allot enough time to remedy the violation. Amoco is now auditing several stations in its St. Louis district, which includes some Illinois jobbers, and will monitor them for at least the remainder of the year.

A yearlong Government Accounting Office study reveals the United States is less vulnerable to an oil shortage today than it was in the 1970s. However, the GAO study says that national security could be adversely effected by an increasing dependence on foreign oil. The study recommends that the government prepare for a possible oil deficit by mandating greater energy efficiency in transportation to get more miles per gallon. However, the Dept. of Transportation recognizes that implementing tougher auto-efficiency standards will have it butting heads with the auto industry, some consumer groups and lawmakers which are not likely to concede to that kind of recommendation during an election year.

Federated Insurance, one of the largest pollution liability carriers, has upped its prices once again. A Federated spokesman says the company hasn't been making money because premiums have been less than the firm has been paying out. One marketer with several stations in Illinois says his premiums went from $9,000 to $39,000. The main reason for the increase stems from the recent change in tank classifications and the reevaluation of each state, says Federated. Thus, marketers operating in high risk areas, such as California and New Mexico, and who have older tanks, will pay about $5,000 per site. Those in low-risk states, such as Alabama, Arizona, Delaware, Indiana, Mississippi, Kentucky, Kansas and Tennessee will pay about $2,000-$2,500. One bright note: Federated anticipates state cleanup funds should help to keep premiums at a reasonable rate.

In a letter to the Federal Trade Commission, the New England Fuel Institute demanded an investigation of what it termed "unscrupulous and deceptive" promotional materials by Bay State Gas Co. NEFI says a brochure "misrepresents the comparative costs of oil and gas heating and distorts the efficiency of the gas-heating furnaces available to the public." It says the utility's claim that gas heat is cheaper than oil heat in Massachusetts is and has been "untrue since early 1986," and the claim that gas furnace efficiencies are 85-96% is a "blatant misrepresentation . . . The most recent data compiled by FTC lists 51.4- 86.2% as the range of existing energy efficiencies for gas heat."

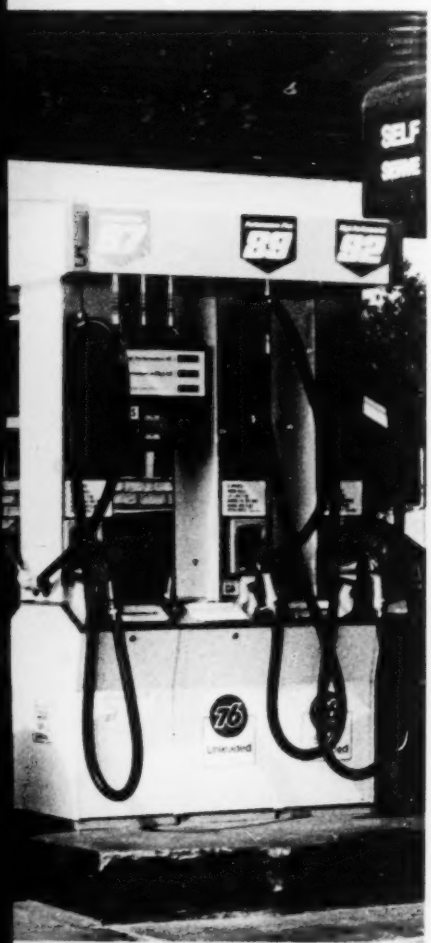
Six new directors were elected to Petroleum Equipment Institute's (PEI) even-numbered districts and will be installed at its Convex 88 Show in San Francisco this month. They are: Lawrence L. Hafer, president, Hafer Petroleum Equipment Ltd., Reading, Pa.; Maurice J. Hubbard, president, J & M Pump Service, Inc., Fort Myers, Fla.; Carl E. Dean, president, Buckeye Oil Equipment Co., Dayton, Ohio; Jerry Schmitz, vice president, Petroleum Marketers Equipment Co. Inc., Oklahoma City; Thomas McGee, vice president of PMP Corp., Avon, Conn.; Brian Donovan, manager, Steel Tank Assn., Northbrook, Ill. The newly elected directors will join the seven directors elected last year. The president and vice president will be elected at Convex 88.

Unocal First In West With Unleaded Trio

Ever since unleaded gasoline was introduced in the early 1970s to protect catalytic converters from being ruined by lead, the oil industry has become a marketer of at least three grades of gasoline—except Unocal. The reigning head of Unocal for many years, Fred L. Hartley, decided to stay with two grades while the rest of the industry went to three.

For many years, Unocal marketed a leaded premium and unleaded regular, the latter being of higher octane number than the leaded regulars of other companies.

It is therefore a case of some distinction that Unocal has become the first company in the West to market three unleaded grades. Interestingly, Unocal's hardware is still two-grade, utilizing a blending valve to mix the middle unleaded grade.



Unocal markets three unleaded grades in West.

The conversion was completed throughout the West in August, after having been introduced in 1987 in Washington and Oregon.

In the Northwest the octane configuration is 87-89-91, and in the rest of the West 87-89-92.

The middle-unleaded grade has made great inroads in many other parts of the country, and it is likely to give Unocal a jump on everybody else in the West.

Western Motor Fuel Tax Among Highest In U.S.

As gasoline and diesel-fuel taxes go, many of the Western states are right up near the top of the list, with Montana leading the pack at 20¢ gal. (second in the nation to Wisconsin at 20.9¢). At 8¢ gal., Alaska and Wyoming are among the four lowest in the country, outdone only by Georgia with 7.5¢.

The federal gasoline tax is an additional 9¢ gal., the federal diesel tax is an extra 15¢ gal.

California with 9¢ gal., fifth lowest in the country, seems likely to be adopting a hefty increase soon. In late summer, California legislators appeared to be getting behind an 8¢ gal. jump during the next five years: 4¢ in 1989 and 1¢ annually from 1990 through 1993. This would bring the total to 17¢, which would tie it for 13th highest in the nation based on current tax rates.

Here's a rundown of gasoline and diesel fuel taxes in the West as of mid-1988, according to the Highway Users Federation (¢/gal.):

	Gasoline	Diesel
Alaska	8¢	8¢
Arizona	16	16
California	9	9
Colorado	18	20.5
Hawaii	11	11
Idaho	18	18
Montana	20	20
Nevada	16	17
Oregon	14	14
Utah	19	19
Washington	18	18
Wyoming	8	8

Calls for higher motor fuel taxes are influenced primarily by the strain on highway systems. This is brought about by increased travel accompanied by repeated cutbacks and uncertainty in the federal-aid highway program.

State and local officials are being pressed by the need for improvements in aging roads and bridges, worsening traffic congestion, and public demand for better highway services.

Since 1983, when the federal gasoline tax was increased to 9¢ from 4¢ gal., traffic has increased nearly 20%, while the Gramm-Rudman-Hollings law and other cutbacks have squeezed annual federal highway expenditures to $11.8-billion in 1987, which is less than the $12.4-billion spent when the tax was 4¢ gal. and 10.5% less than highway expenditures in 1986.

The oil industry normally opposes motor fuel tax increases, most vehemently when there is any prospect the funds will be diverted to other than road uses. In 1987 eight state legislatures, including Montana in the West, passed laws to divert some highway revenues to other state programs. The others were Kansas, Louisiana, Minnesota, North Dakota, Oklahoma, South Carolina and Texas.

Tax exemptions for gasohol are often criticized for draining highway revenues although vehicles powered by gasohol cause the same wear on roads and bridges as those powered by gasoline. There are 14 states that give gasohol some tax exemption, but only three in the West: Alaska, Idaho and Washington. The others are Alabama, Iowa, Minnesota, Nebraska, New Jersey, New Mexico, South Carolina, South Dakota, Tennessee and Texas.

Motor-fuel tax increases are likely to continue to rise in relatively small increments in time, as they have since they started appearing in the early 1900s. The petroleum industry has been living with that.

There is an outside chance, however, of a turnabout in national thinking. Some people have proposed using high motor fuel taxes as a means of reducing the national debt. A 10¢ gal. increase in the gasoline tax would generate revenues of more than $10-billion annually. Such taxes, it is also argued, would lower gasoline consumption and reduce the United States dependence on foreign imports.

There is far from a consensus on the virtue of such legislation, but it is not beyond the pale of possibility if financial hard times come to this country.

Chevron Takes Action, Trims Smog, Traffic, Fuel

Chevron USA has decided to take its tank trucks off the roads during rush hours in the Los Angeles basin, reducing smog, traffic congestion and saving diesel fuel. The voluntary program was started in June, confining 60 trucks to terminals from 6 to 9 a.m. and 3 to 6 p.m. on weekdays.

Because of all the slow-and-go and stop-and-go driving forced on vehicles during rush hours, Chevron expects to reduce truck emissions by 20%, which amounts to nine tons in a year, and save more than 26,000 gal. of diesel fuel annually.

Chevron is also encouraging its suppliers, vendors, and contractors to do the same, reports Wally J. Fassler, regional vice president.

The trucks, dispatched from four distribution terminals in southern California, had been traveling 55,000 miles a month during the six rush hours.

Fassler notes that rush hour rescheduling during the 1984 summer Olympic games resulted in noticeably better air quality and traffic improvements. He expressed hope other companies would follow Chevron's lead. NPN

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NATIONAL PETROLEUM NEWS October 1988

Short-Term Forecast Anticipates Little Change This Year And Next

A revised government forecast says $1 per gal. gasoline (all grades and services) isn't in the cards in the foreseeable future unless the oil exporting countries curb crude production and stabilize global prices.

Prior projections had envisaged the buck-a-gallon motor fuel this past summer but then backed it off until next year. Now, the new forecast says gasoline prices will average 99¢ gal. next summer, then erode to 98¢ by the year's end. The annualized average will be 96¢ gal. in 1989, the same as in 1987. The 1988 average is expected to be 96¢ gal., down 2¢. Two consolations: retail margins will continue in the 12-13¢ range and consumption will be up modestly.

Heating oil retails may average out about 1-2¢ gal. less in 1989 than in 1988. Demand may be up about 100,000 b/d this year and 80,000 b/d next while margins will average perhaps a penny less than this year. They'll still be in a comfortable 30¢ range.

The key for what's ahead still hinges heavily on the actions of the OPEC countries. They were unable to agree on production curbs and price controls at several meetings earlier this year. Some countries increased crude output despite surpluses. This crushed hopes for $18-$20 bbl. crude by the end of this year.

Year End Forecast: Little Change In Anything

	PROJECTIONS					
	1988		1989			
	3Q	4Q	1Q	2Q	3Q	4Q
DEMAND (million b/d)						
Motor Gasoline	7.51	7.32	7.03	7.60	7.60	7.43
Leaded	1.51	1.40	1.29	1.18	1.05	0.95
Unleaded	6.00	5.91	5.74	6.41	6.55	6.48
% Unleaded	80%	81%	82%	84%	86%	87%
Distillates	2.79	3.25	3.51	3.00	2.85	3.31
Residual	1.13	1.17	1.35	1.17	1.07	1.14
TOTAL U.S. (a)	16.77	17.31	17.40	16.85	16.95	17.55
PRICES (¢ per gal.) (b)						
Motor Gasoline (c)	.94	.93	.92	.95	.99	.98
No. 2 Diesel Oil	.89	.89	.92	.94	.94	.94
No. 2 Heating Oil						
Wholesale	.45	.49	.52	.52	.51	.53
Retail	.73	.78	.82	.80	.78	.83
Residual (d)	.33	.39	.41	.38	.38	.41

	ANNUALIZED COMPARISONS			Percent Change		
	1987	1988	1989	87/86	88/87	89/88
DEMAND (million b/d)						
Motor Gasoline	7.21	7.29	7.42	2.6%	1.1%	1.8%
Leaded	1.74	1.43	1.12	(20.6)	(17.8)	(21.7)
Unleaded	5.47	5.87	6.30	12.0	7.3	7.3
% Unleaded	76%	81%	85%	—	—	—
Distillates	2.98	3.08	3.16	2.4	3.4	2.6
Residual	1.26	1.23	1.18	(11.3)	(2.4)	(4.1)
TOTAL U.S. (a)	16.67	16.98	17.19	2.4	1.9	1.2
PRICES (¢ per gal.) (b)						
Motor Gasoline (c)	.96	.94	.96	3.2	(2.1)	2.1
No. 2 Diesel Oil	.93	.91	.94	4.5	(2.2)	3.2
No. 2 Heating Oil						
Wholesale	.53	.49	.52	6.1	(7.5)	6.1
Retail	.80	.80	.81	(4.8)	.0	1.3
Residual (d)	.42	.35	.39	23 6	(16.7)	11.4

(a) Includes all other oils; (b) Includes federal and state taxes on all products except heating oil, which is not taxed; (c) Average for all grades and services; (d) Average for all grades of sulfur.

Source: Energy Information Administration, Short-Term Energy Outlook, dated July but published in August 1988.